

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07

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SP-02 TRSE-00 CIEP-02 LAB-04 SIL-01 OMB-01 SS-15

NSC-05 L-03 PA-02 PRS-01 USIA-15 AGR-10 STR-04 OES-05

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FM USMISSION OECD PARIS
TO SECSTATE WASH DC 7291
INFO AMEMBASSY LISBON

UNCLAS SECTION 01 OF 03 OECD PARIS 13827

DEPARTMENT PASS BRUSSELS FOR SECRETARY'S PARTY

E.O.11652: N/A

TAGS: ECON, OECD

SUBJECT: PORTUGUESE STATEMENT AT OECD MINISTERIAL

FOLLOWING IS TEXT OF STATEMENT MADE AT OECD MINISTERIAL
MAY 29 BY M. MURTEIRA, PORTUGUESE MINISTER FOR PLANNING
AND ECONOMIC COORDINATION, IN WHICH HE NOTES PORTUGAL
NOT AT THIS STAGE IN POSITION TO RENEW TRADE PLEDGE.
BEGIN TEXT:

1. I WOULD LIKE TO MAKE SOME COMMENTS ABOUT THE MAIN
PRESENT ECONOMIC PORTUGUESE PROBLEMS, IN THE CONTEXT OF
THE GLOBAL OECD SITUATION. I INTEND TO EXPLAIN ALSO THE
PORTUGUESE POSITION CONCERNING THE SO-CALLED TRADE
PLEDGE.

PORTUGUESE ECONOMY CANNOT BE EXAMINED MERELY AS THE
PRODUCT OF THE CONDITIONS OF THE MOMENT, SINCE IT IS
THE RESULT OF THREE DISTINCT PROCESSES, WHICH ARE NONE-
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THELESS LINKED TOGETHER.

IN THE FIRST PLACE, THERE ARE THE STRUCTURAL ASPECTS OF THE SOCIETY AND THE ECONOMY AS THEY EXISTED BEFORE THE 25TH APRIL; SECONDLY CURRENT TRENDS IN THE ECONOMIES OF THE COUNTRIES WITH WHICH WE ARE MOST CLOSELY LINKED; AND THIRDLY, THE RAPIDITY OF THE SOCIAL CHANGES WHICH HAVE BEEN, AND STILL ARE, TAKING PLACE SINCE THE END OF THE PREVIOUS REGIME.

TO MAKE OUR SITUATION EASIER TO UNDERSTAND, THE PRINCIPAL RELEVANT FACTORS WHICH WILL BE BRIEFLY COMMENTED ON LATER CAN BE DIVIDED INTO FOUR GROUPS:

- A) ECONOMIC STRUCTURES INHERITED FROM THE PREVIOUS REGIME,
- B) HEAVY DEPENDENCE ON FOREIGN COUNTRIES,
- C) CONSEQUENCES OF DECOLONISATION,
- D) CONSEQUENCES OF THE POLITICAL CHANGES.

A) AS FAR AS THE ECONOMIC STRUCTURES INHERITED FROM THE PREVIOUS REGIME ARE CONCERNED, IT IS ONLY NECESSARY TO BEAR IN MIND THE FOLLOWING:

1) NATIONAL INCOME PER HEAD (ABOUT \$1000) IS ONE OF THE LOWEST IN EUROPE, QUITE APART FROM CONCEALING EXTREME INEQUALITIES IN INCOME DISTRIBUTION. THIS IS WHY MANY PORTUGUESE HAD TO EMIGRATE TO FIND A BETTER LIFE. IN THE LAST 10 OR 12 YEARS THE ARMY OF EMIGRANTS HAS EXCEEDED 1 MILLION OUT OF A TOTAL POPULATION OF LESS THAN 9 MILLION.

2) ON THE OTHER HAND, PUBLIC INVESTMENT, WHICH COMPRISED LESS THAN 20 OF TOTAL CAPITAL FORMATION AND ABOUT 4 OF NATIONAL EXPENDITURE, HAS TENDED TO BE CONCENTRATED IN THE LARGE URBAN AREAS. THIS PHENOMENON, TOGETHER WITH EMIGRATION, HAS CONTRIBUTED TO THE DEPOPULATION OF LARGE PARTS OF THE RURAL REGIONS OF THE COUNTRY.

3) ANOTHER IMPORTANT CHARACTERISTIC OF THE STRUCTURE INHERITED FROM THE PAST IS THE STAGNATION OF UNCLASSIFIED

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AGRICULTURAL PRODUCTION. BETWEEN 1960 AND 1972 THE AVERAGE ANNUAL RATE OF GROWTH OF THIS SECTOR WAS IN FACT ONLY 1.2, WHICH MEANT THAT BETWEEN 1960 AND 1972 THE SHARE OF THE PRIMARY SECTOR IN THE GROSS NATIONAL PRODUCT DECLINED FROM 25 TO ABOUT 13. THIS STAGNATION IN

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TERMS OF PRODUCTION WAS MEANWHILE ACCOMPANIED BY AN ACTUAL INCREASE IN THE PRODUCTIVITY OF THE AGRICULTURAL WORKER, RESULTING FROM THE REDUCTION IN THE WORK FORCE IN THIS SECTOR CAUSED BY EMIGRATION AND THE MOVEMENT TO THE URBAN CENTRES.

B) IN RELATION TO OUR DEPENDENCE ON FOREIGN COUNTRIES THREE FURTHER FACTORS SHOULD BE CONSIDERED:

1) AT THE LEVEL OF FOREIGN TRADE, THIS DEPENDENCE IS NOT SO MUCH THE RESULT OF THE HIGH PROPORTION OF FOREIGN TRADE IN THE ECONOMY (A NORMAL FEATURE OF THE ECONOMIES OF SMALL COUNTRIES) BUT OF THE CONCENTRATION OF MARKETS OF ORIGIN OF IMPORTS AND DESTINATION OF EXPORTS. THE GREATER PART OF OUR EXPORTS GOES IN FACT TO THE EUROPEAN ECONOMIC COMMUNITY (ABOUT 46), EFTA (ABOUT 15) AND THE UNITED STATES (ABOUT 10) AND THE SITUATION IS SIMILAR FOR IMPORTS. WE MUST ALSO STRESS OUR PRONOUNCED DEPENDENCE WHERE ENERGY AND FOODSTUFFS

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OF ALL KINDS ARE CONCERNED, FROM CEREALS TO ANIMAL PRODUCTS, AND IT SHOULD BE NOTED THAT THE GENERAL RISE IN THE WORLD PRICES OF THESE PRODUCTS AND CERTAIN RAW MATERIALS HAS AGGRAVATED THE PROBLEM OF INFLATION.

2) THE PROBLEM OF SURPLUS LABOUR TYPICAL OF UNDER-DEVELOPED COUNTRIES HAS BEEN SOLVED IN PORTUGAL BY EMIGRATION. THE REDUCTION IN THE FLOW OF PORTUGUESE WORKERS ABROAD, CAUSED BY CURRENT PROBLEMS IN THE MORE DEVELOPED NATIONS, IS CREATING FURTHER DIFFICULTIES IN EMPLOYMENT WHICH IN THE SHORT TERM IT WILL BE HARD TO SOLVE THROUGH INTERNAL ECONOMIC ACTIVITY ALONE.

3) ANOTHER ASPECT OF EXTERNAL DEPENDENCE CONCERNS FOREIGN INVESTMENT IN OUR COUNTRY, WHICH IN 1973 WAS ABOUT TEN TIMES GREATER THAN IN 1962. HOWEVER, THE INCREASE IN WAGES SINCE APRIL 25TH HAS REDUCED THE INTEREST SHOWN IN OUR COUNTRY AS A RESERVE OF LOW-COST LABOUR; FOREIGN INVESTMENT HAS THUS DECLINED AND SOME MULTINATIONAL FIRMS HAVE CEASED OPERATIONS, SO WORSENING THE EMPLOYMENT SITUATION.

C) DECOLONISATION, THE FIRST GREAT ACHIEVEMENT OF THE REVOLUTION, WILL CAUSE NO SPECIAL ECONOMIC PROBLEMS, WHILE ON THE OTHER HAND IT SHOULD RELIEVE THE PRESSURE ON THE NATION'S FINANCES THROUGH A REDUCTION IN MILITARY EXPENDITURE. HOWEVER, THERE MAY BE NEGATIVE EFFECTS ON THE EMPLOYMENT SITUATION OWING TO THE RETURN OF SETTLERS AND OF SOLDIERS SERVING IN THE DECOLONISED TERRITORIES.

D) LASTLY, REFERENCE MUST BE MADE TO THE FACT THAT THE ECONOMIC CONSEQUENCES OF THE POLITICAL TRANSFORMATION HAVE BEEN PARTICULARLY FELT BY EMPLOYERS LONG ACCUSTOMED TO BEING PROTECTED FROM ANY KIND OF SOCIAL TENSION. AS WAS TO BE EXPECTED, THE CRISIS OF CONFIDENCE AMONG ENTREPRENEURS HAS TAKEN THE FORM OF A SUBSTANTIAL FALL IN INVESTMENT, WHILE WAGE AND SALARY INCREASES ARE POSING PROBLEMS TO SMALL AND MEDIUM-SIZED FIRMS, MANY OF WHICH ARE OPERATING INEFFICIENTLY.

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2. SINCE THE REVOLUTION THE AUTHORITIES HAVE MADE EFFORTS TO TAKE APPROPRIATE MEASURES TO SOLVE THE PRE-

VAILING PROBLEMS, BUT THESE HAVE BEEN RENDERED INEFFECTIVE IN CERTAIN CASES BY THE LACK OF A CLEARLY DEFINED POLITICAL DIRECTION BEFORE THE EVENTS OF 11TH MARCH.

IT THEREFORE SEEMS IMPORTANT TO MENTION SOME OF THE MEASURES RECENTLY ADOPTED.

TO SOLVE THE CURRENT PROBLEMS OF UNEMPLOYMENT THE GOVERNMENT HAS DRAWN UP A NATIONAL EMPLOYMENT PLAN. THIS PROVIDES FOR SUBSTANTIAL PUBLIC INVESTMENT, BOTH IN SOCIAL AND ECONOMIC INFRA-STRUCTURES AND IN RELATION TO THAT PART OF PRODUCTION WHICH HAS ALREADY BEEN NATIONALIZED.

IN CONNECTION WITH AGRARIAN REFORM, MEASURES HAVE ALSO BEEN TAKEN TO DEFINE THE MAXIMUM LIMITS OF PRIVATE HOLDINGS IN THE AGRICULTURAL SECTOR, TAKING INTO ACCOUNT THE VARIOUS TYPES OF PRODUCTS CONCERNED.

IN ORDER TO MAINTAIN THE PURCHASING POWER OF THE WORKING CLASSES, THE GOVERNMENT DECISION TO FREEZE THE PRICES OF A LARGE NUMBER OF FOODSTUFFS UNTIL THE END OF

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THIS YEAR WAS ALSO SIGNIFICANT. AT THE SAME TIME, THE PRICES TO THE PRODUCER OF CERTAIN AGRICULTURAL AND ANIMAL PRODUCTS HAVE BEEN RAISED. THIS DECISION EVIDENTLY IMPLIES A NEW POLICY OF SUBSIDIES WHICH WILL DOUBTLESS AFFECT THE CONSUMPTION OF NON-ESSENTIAL GOODS.

ON THE OTHER HAND, THE SCOPE OF THE SOCIAL SECURITY SYSTEM HAS ALSO BEEN CONSIDERABLY ENLARGED, WITH THE INTENTION OF ESTABLISHING RAPIDLY A SOCIAL SECURITY SYSTEM WHICH WILL COVER THE ENTIRE POPULATION.

FINALLY, IN LINE WITH THE NEW POLITICAL DIRECTION WHICH WILL CHARACTERIZE THE COUNTRY'S SOCIAL AND ECONOMIC DEVELOPMENT, UNDERTAKINGS ENGAGED IN THE PRODUCTION, TRANSPORT AND DISTRIBUTION OF ENERGY, OIL, STEEL AND IN PUBLIC TRANSPORT HAVE BEEN NATIONALIZED. PUBLIC OWNERSHIP IS ALSO BEING DEVELOPED IN OTHER SECTORS, SUCH AS CHEMICALS, CEMENT, THE MINING INDUSTRY AND METAL-WORKING INDUSTRIES. MEANWHILE IT SHOULD BE STRESSED THAT THE UNCLASSIFIED

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GOVERNMENT GUARANTEES THE RIGHTS OF FOREIGN CAPITAL IN THE VARIOUS SECTORS AFFECTED BY THESE ACTS OF NATIONALIZATION.

3. CONSIDERING THE GREAT DIFFICULTIES THE PORTUGUESE ECONOMY FACES PRESENTLY, OF A RATHER SPECIFIC AND COMPLEX NATURE, I SHOULD LIKE TO EMPHASIZE THE PARTICULAR IMPORTANCE FOR US OF THE PROBLEMS OF COMMERCIAL POLICY. THERE WAS AN URGENT NEED IN MY COUNTRY FOR INTRODUCING SPECIFIC TRADE MEASURES WITH REGARD TO SOME IMPORTS, WHICH WE HAVE RECENTLY DECIDED TO APPLY. SUCH MEASURES WERE REQUIRED IN VIEW OF THE RECENT TRENDS IN THE BALANCE OF PAYMENTS, OF THE RAPID DECLINE IN OUR GOLD AND CURRENCY RESERVES AND OF THE SERIOUS SITUATION IN MANY SECTORS OF OUR ECONOMIC ACTIVITY. WITHOUT ENTERING IN FURTHER DETAILS ABOUT PORTUGUESE ECONOMIC PROBLEMS, I MUST SAY THAT THE LOSS IN RESERVES IN THE FIRST FOUR MONTHS OF THE CURRENT YEAR REACHED 440 MILLION DOLLARS AS AGAINST 630 MILLION DOLLARS IN THE ENTIRE YEAR OF 1974.

IT BECOMES CLEAR WHY WE THINK THAT THE AID WE NEED FROM OECD COUNTRIES SHOULD TO A LARGE EXTENT CONSIST OF A SYMPATHETIC ATTITUDE WITH REGARD TO IMPORT MEASURES

THAT WE WERE FORCED TO INTRODUCE. I SHOULD ALSO MENTION
THAT PORTUGAL ACCOUNTS FOR LESS THAN 0.5 OF TOTAL INTRA
OECD TRADE AND THAT THEREFORE THE EFFECTS OF IMPORT
MEASURES TAKEN BY MY COUNTRY DO NOT AFFECT SIGNIFICANTLY
OTHER ECONOMIES.

ALTHOUGH IN AGREEMENT WITH THE PRINCIPLES THAT IN-
SPIRED THE OECD TRADE PLEDGE AND ITS RENEWAL AND RECOG-
NIZING THE DANGERS FOR ALL OUR ECONOMIES OF THE GENERALI-
ZATION OF "BEGGAR-MY-NEIGHBOUR POLICIES", WE DRAW ATTEN-
TION TO THE IMPERATIVE NEEDS ARISING OUT OF THE SPECIAL
CIRCUMSTANCES OF THE PORTUGUESE ECONOMY AT PRESENT.

THEREFORE, MY GOVERNMENT IS NOT, AT THIS STAGE, IN A
POSITION TO RENEW THE DECLARATION.

END OF TEXT

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